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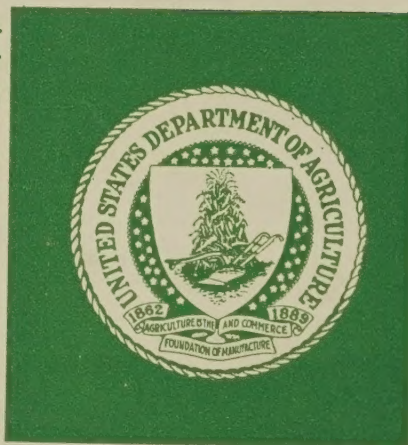


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SANITARY REGULATION--ONCE? TWICE? THRICE?

by Alden C. Manchester, Floyd A. Lasley, W. Webster Jones

Those in the dairy industry are quite conscious of the fact that practices they designed to help accomplish a desirable goal may later become quite burdensome and restrictive. Technology changes our ability to do certain tasks and to produce certain products. We change our way of looking at problems--even changing the problems themselves.

The problem we are considering did not just happen. There were very definite reasons for travelling the road we have gone in sanitary regulation. (And there are very definite reasons for travelling on a high-speed highway at the present time). The practices used by the dairy industry have served us well. Forty years ago when health authorities and the dairy industry first began developing widespread regulations regarding sanitation requirements the truly pressing problem was how to achieve a safe and sanitary milk supply. Debate waxed hot over whether or not to make pasteurization compulsory. There was much difference of opinion as to what kind of sanitary requirements should be met by farmers.

During this phase the problem of duplication in sanitary regulation and inspection was not serious. Extending effective sanitation regulation and inspection to cover a larger part of the supply was of greater concern than was duplication. Most plants procured and distributed milk over a very limited area. Generally, the supply and distribution areas were pretty much the same territory, with the supply area for cities being the larger. The amount of milk processed in one local jurisdiction and sold in another was only a small part of the total.

Twenty years ago the problem had changed. Refrigerated trucks and improved technology had made it feasible to move large quantities of milk to quite distant markets. Producers and milk marketing agencies were seeking ways to move milk from surplus, low-priced areas to higher priced markets, either on a regular or supplementary basis. Many of these markets, however, attempted to "protect" the local supply and their control over that supply by erecting barriers to the "importation" of milk from outside the local area. Local health ordinances were a popular way of accomplishing this purpose. Many local health ordinances required that milk be pasteurized within the city limits or within a certain distance. Some required certain type structures and equipment. Some required that all farms and plant facilities be inspected by local health authorities.

These barriers were made more effective by similar "protective" provisions and administration of regulations governing the supply of raw milk. The cost of these inspections (and permits) tended to make movement of milk to many markets uneconomical.

Economies of scale in processing further stimulated the desire to expand the volumes handled at each step. The combined pressures on the distribution and supply sides were exerting the dual influence of (1) local groups seeking to protect "their" local market and (2) outside groups seeking to move more milk into those markets. Duplicating and contradicting sanitation regulations were prevalent. As a means of limiting the flow of milk between market areas this was the "heyday" for sanitation regulations. However, in evaluating their impact, one must remember that such limitations are not very effective unless accepted by the industry, regulating agencies, and the public. In this case, not only were they accepted, but generally were considered desirable by local community residents.

Ten years ago, most of the prohibitions on importation of milk had been struck down by the courts, although a few still exist--waiting only for a challenge in the courts. Progress had been made in achieving reciprocity through the adoption of the U.S. Public Health Service Model milk ordinances and the Interstate Milk Shippers program. But the problem of duplication in inspections and regulations was becoming acute.

Today, we find that substantial progress has been made on all of these fronts. In fact, progress undoubtedly has been greater than commonly believed. A few States have adopted legislation which vests the authority for sanitary regulation of milk plants and milk supplies entirely in a State agency. This, of course, eliminates duplicate regulation and inspection within the State. Reciprocity between sanitation authorities is increasingly observed, but a substantial problem still exists. Duplicate sanitary regulation and inspection costs the dairy industry--milk processors and distributors, farmers, and cooperatives--perhaps \$1 million a year. In addition, substantial amounts of tax funds are expended to support duplicate regulation and inspection.

In the hope that this problem can be eliminated in the next decade, the Economic Research Service of the Department of Agriculture, in cooperation with the Milk Industry Foundation, has made a study to determine the costs of such duplicate regulation and inspection. This is a preliminary report on that study.

The basic premise of this study is that duplicate regulation and inspection are--or should be--unnecessary. The primary sanitation authority for each plant--whether it be city, county, or State--should perform an adequate regulatory job so that all other jurisdictions can accept its inspection as ensuring a safe and sanitary supply of fluid milk products.

The Study

To obtain information on the total costs of sanitary regulation of the fluid milk business in the United States, we surveyed all of the commercial fluid milk plants in the country by mail. We received and summarized replies from 1,249 fluid milk bottling plants--39 percent of the estimated 3,200 bottling plants in the United States. The 35.8 billion pounds of milk received by these plants was 46.9 percent of the fluid grade milk sold to plants and dealers throughout the country in 1967. Thus, average receipts of these plants were about 20 percent higher than the average for all plants in the country. In other words, we received replies from a higher percentage of the large plants than of the small plants. The average receipts of plants in the survey were 28.7 million pounds in 1967, compared to 23.8 million pounds for all plants in the United States.

We compared milk receipts reported by the 1,249 plants in each region with the total fluid grade milk sold to plants and dealers in the region. Reported data were then expanded by this ratio to estimate the regional totals. The same ratio was applied to each State within a region.

Sanitation Regulation and Entry into New Markets

Nearly one-tenth of the plants reported sanitation regulations which prevented or discouraged them from entering specific market areas. Plant and equipment requirements and high permit fees were the two most often mentioned as barriers sufficient to prevent these plants from selling milk in other markets.

Plants also reported difficulty in entering new markets during the past five years because of sanitation requirements. Such difficulty was more pronounced when entering a market in another State. These plant managers rated difficulties encountered in such markets as moderate or major in degree. Delays in obtaining permits were also mentioned as a problem by several managers.

Plant Regulation and Inspection

Fluid milk plants in the study were regulated by an average of 4.8 sanitation authorities--the primary authority and 3.8 "other authorities." Primary authorities were about evenly divided between city, county, and State jurisdictions. City authorities were the most numerous among "other authorities" and apparently it was with these agencies that most difficulty was experienced in obtaining sanitation authority permits.

Plants reported a great difference in the frequency of inspection by sanitation authorities. About one-third were inspected only once each month, and another one-third no more than twice. A small number were inspected a maximum of 10 to 35 times during a single month.

Plants were inspected about three times as often by primary authorities as they were by other authorities. They were inspected more often by authorities charging fees than by authorities which did not charge fees. The ratio of inspections was about the same as the ratio of fee-charging to non-fee-charging authorities. The 1,249 plants were each inspected an average of twice per month.

Plants answering the survey reported paying an average of \$1,134 to primary authorities and \$174 to others--a total of \$1,308 per plant. Individual plants paid fees ranging up to \$85,000 to various sanitation authorities, although four out of five plants paid less than \$1,000 in fees. Plants in one State paid fees equivalent to 2.8¢ per cwt. of milk received.

Based upon the costs reported by the 1,249 plants, all fluid milk plants throughout the country paid an estimated \$3.4 million plant fees in 1967. An additional \$500,000 was expended for employee time spent with inspectors and other costs associated with plant inspections. About \$2.9 million of the plant fees were paid to primary authorities and the remaining \$500,000 paid to other authorities. About \$300,000 of the associated costs were for primary authorities and \$200,000 for others.

Fluid milk plants paid an estimated \$4.5 million for sanitary regulation in 1967. Total cost for primary regulation was \$3.3 million and \$0.6 million for other authorities. In addition, plants paid about \$33 thousand sanitation fees on milk received from other plants and over one-half million dollars in producer fees.

What's ahead?

The fluid milk industry is incurring almost one-half million dollars in "duplicate" inspection and regulation fees and nearly a sixth of \$1 million in personnel and other costs connected with these inspections. "Duplicate" farm inspection costs bring the total of these "duplicate" regulation costs into the area of \$1 million per year. As milk plants widen their effective procurement and distribution areas, these costs and the difficulties encountered may become more onerous unless we recognize the principle of a single sanitation authority for each plant.

Tables Showing Plants, Milk Receipts, Sanitary Authorities, Inspections, and Costs

The following tables provide a more comprehensive view of the relationships we have been considering. These preliminary data summarize the information given by the 1,249 fluid milk plants in the survey. Costs reported by these plants were expanded proportional to their milk receipts as compared with the total fluid grade milk sold to plants and dealers in each region.

Table 1.--New markets entered by the plants during the five year period of 1963-67 and difficulty of entry as reported by plants by region

Market location and entry difficulty	Breakdown of replies by region:											
	New : England	: Atlantic	: Central	: Mid-Atlantic	: East North	: West North	: South	: Atlantic	: Central	: South	: Western	: Total
	Number	Number	Number	Number	Number	Number	Number	Number	Number	Number	Number	Number
Number of new markets entered:												
1963-67:												
Intrastate.....	58	96	70	41	34	55	31					385
Interstate.....	10	38	15	10	21	10	5					109
Total.....	68	134	85	51	55	65	36					494
Degree of difficulty of entry:	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
because of sanitation regulations:												
Intrastate												
Negligible.....	98.3	82.3	80.0	68.3	97.1	60.0	96.8					82.1
Moderate.....	1.7	14.6	18.6	17.1	---	7.3	---					10.1
Major.....	---	3.1	1.4	14.6	2.9	32.7	3.2					7.8
Total.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0					100.0
Interstate												
Negligible.....	80.0	60.5	33.3	70.0	42.9	30.0	40.0					52.3
Moderate.....	20.0	29.0	40.0	20.0	23.8	20.0	40.0					27.5
Major.....	---	10.5	26.7	10.0	33.3	50.0	20.0					20.2
Total.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0					100.0
Plants reporting as a percent:												
of plants in survey.....	13.5	11.6	14.8	15.7	19.1	14.1	8.7					13.5

Table 2.--Sanitation barriers that prevented or discouraged plant managers from selling milk in other markets,
1967

Kind of barrier 1/	Percentage breakdown of barriers reported by region:										Total
	New England	Mid- Atlantic	East North Central	West North Central	South Atlantic	South Central	Western	Percent	Number		
Plant sanitation, plant construction or equipment.....	11.1	51.7	22.2	14.8	31.6	4.5	12.5	23.9	38		
Carton, labeling, and dating requirements.....	22.2	10.3	6.7	---	10.5	22.7	12.5	10.1	16		
High permit fees.....	---	10.3	8.9	44.4	10.5	27.3	---	17.0	27		
Did not recognize Interstate:											
Milk Shippers certification:	---	---	22.2	7.4	---	---	---	7.5	12		
High plant inspection cost...	---	---	13.3	7.4	---	4.6	---	5.7	9		
High farm inspection cost....	---	3.4	13.3	3.7	---	9.1	12.5	6.9	11		
Farm construction and sanitation requirements.....	---	10.3	---	---	21.1	4.5	12.5	5.7	9		
Raw milk bacterial count.....	---	---	2.2	3.7	---	---	---	1.3	2		
Unwilling to inspect plant...	---	10.3	---	3.7	---	---	---	2.5	4		
Difference in butterfat content.....	22.2	---	4.4	7.4	5.3	4.6	12.5	5.7	9		
Location of processing.....	---	---	---	---	21.1	4.5	---	3.1	5		
Brucellosis testing.....	---	---	---	3.7	---	---	12.5	1.3	2		
Barrier not specified.....	22.2	3.4	6.7	3.7	---	18.2	25.0	8.2	13		
Other.....	22.2	---	---	---	---	---	---	1.3	2		
Total 2/.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	159		
Plants reporting as percent of plants in survey.....	6.8	7.9	9.7	14.3	12.3	13.5	4.0	9.4			

^{1/} Not all barriers listed are exclusively sanitation barriers.

^{2/} Totals may not equal sum of parts because of rounding.

Table 3.--Primary and other sanitation authorities regulating plants by type: Percentage breakdown by type authority, 1967

Region	Primary authorities by type				Total number:		Other authorities by type				Total	
	City	County	State	Percent	Number	City	County	State	Percent	other authorities	Percent	
					per plant	1/:						
	Percent	Percent	Percent	Percent	Number	Percent	Percent	Percent	Percent	Percent	Percent	
New England.....	24.2	0.8	75.0	8.1	80.3	0.7	15.4	3.6	100.0			
Mid-Atlantic.....	26.5	32.0	41.5	6.4	75.9	7.3	13.6	3.2	100.0			
East North Central..	47.0	14.5	38.5	3.8	56.2	4.4	30.4	9.0	100.0			
West North Central..	50.0	13.0	37.0	4.6	48.6	4.6	30.5	16.3	100.0			
South Atlantic.....	18.0	52.3	29.7	3.5	11.4	9.8	50.2	28.6	100.0			
South Central.....	31.2	57.8	11.0	5.3	51.4	8.4	22.6	17.6	100.0			
Western.....	12.4	61.3	26.3	2.4	12.5	8.5	40.2	38.8	100.0			
Total.....	30.2	33.3	36.5	4.8	59.3	5.9	23.4	11.4	100.0			

1/ Each plant is regulated by one primary sanitation authority; additional authorities are classified as "other sanitation authorities."

Table 4.--Maximum frequency of inspection during a month reported by plants in survey, 1967

Maximum number of : plant inspections :		Percentage distribution of plants by frequency of inspection by region:									
during any one month:		New : England	Mid- Atlantic	East North Central	West North Central	South Atlantic	South Central	South Central	Western Central	Western Central	Total
		Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
1.....		44.3	61.2	38.7	33.8	16.3	13.4	22.3		35.6	
2.....		28.2	21.5	32.8	38.9	40.3	35.0	31.8		31.4	
3.....		16.8	8.4	12.8	18.0	23.2	23.0	16.2		15.7	
4.....		2.3	2.9	5.5	4.3	7.0	7.0	9.6		5.5	
5.....		3.1	2.2	5.5	2.2	3.1	7.0	8.1		4.5	
6.....		1.5	1.5	.4	1.4	1.5	2.6	3.5		1.7	
7.....		1.5	---	.4	.7	.8	3.2	3.5		1.4	
8.....		1.5	---	.4	---	1.5	1.3	2.0		.9	
9.....		---	.4	.9	---	.8	---	---		.3	
10-14.....		.8	1.1	1.3	---	1.5	3.1	2.0		1.4	
15-19.....		---	.4	.9	---	1.6	1.9	.5		.7	
20-24.....		---	.4	.4	.7	.8	1.9	.5		.6	
25-29.....		---	---	---	---	---	.6	---		.1	
30-35.....		---	---	---	---	1.6	---	---		.2	
Total.....		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	

Table 5.--Plant inspections by sanitation authorities reported by 1,249 fluid milk plants: Average number inspections by authorities charging fees and not charging fees and by primary and by other authorities, 1967

Region	Average number plant inspections by:			Average number plant inspections by:		
	Authorities charging fees :	Authorities not charging fees :	Total	Primary authorities :	Other authorities :	Total
	Number	Number	Number	Number	Number	Number
New England.....	11.7	7.5	19.2	12.6	6.6	19.2
Mid-Atlantic.....	7.4	6.6	14.0	10.1	3.9	14.0
East North Central..	18.9	3.6	22.5	18.8	3.7	22.5
West North Central..	15.7	3.9	19.6	14.8	4.8	19.6
South Atlantic.....	17.6	17.7	35.3	21.5	13.8	35.3
South Central.....	17.3	18.5	35.8	27.0	8.8	35.8
Western.....	17.5	11.1	28.6	22.8	5.8	28.6
Total.....	14.8	9.1	23.9	17.8	6.1	23.9

Table 6.--Average number of sanitation authorities charging fees, fees as reported paid by 1,249 fluid milk plants to primary and other sanitation authorities, and average fees paid by region, 1967

Region	Primary sanitation authorities						Other sanitation authorities						Total						Average fees paid					
	Average number			Total			Average number			Total			fees paid			fees paid			per plant to:			per plant to:		
	Number	Charging:	Not	Number	Charging:	Not	Number	Charging:	Not	Number	Charging:	Not	Number	Charging:	Not	Number	Charging:	Not	Primary:	Other:	Primary:	Other:	Primary:	Other:
	fees	fees	fees	fees	fees	fees	fees	fees	fees	fees	fees	fees	fees	fees	fees	fees	fees	fees	ties	ties	ties	ties	ties	ties
	Number	Number	Number	Number	Number	Number	Number	Number	Number	Number	Number	Number	Number	Number	Number	Number	Number	Number	ties	ties	ties	ties	ties	ties
New England....	0.6	0.4	1.0	1.0	1,689	6.5	0.6	7.1	2,186	3,875	13	17	30											
Mid-Atlantic...	.4	.6	1.0	1.0	40,519	4.7	.7	5.4	36,300	76,819	149	133	282											
East North																								
Central.....	.8	.2	1.0	1.0	453,642	2.3	.5	2.8	41,713	495,355	1,930	178	2,108											
West North																								
Central.....	.9	.1	1.0	1.0	353,171	2.6	1.0	3.6	62,712	415,883	2,541	451	2,992											
South Atlantic:	.5	.5	1.0	1.0	20,372	.7	1.8	2.5	11,030	31,402	158	85	243											
South Central:	.5	.5	1.0	1.0	365,516	2.8	1.5	4.3	51,831	417,347	2,389	339	2,728											
Western.....	.7	.3	1.0	1.0	181,415	.6	.8	1.4	12,111	193,526	945	63	1,008											
Total.....	.6	.4	1.0	1.0	1,416,324	2.9	.9	3.8	217,883	1,634,207	1,134	174	1,308											

Table 7.--Variation among plants in total plant fees reported paid to sanitation authorities, 1967

Range in fees paid :		Percentage distribution of plants by region:									
		New	Mid-	East North:		West North:		South :		South :	Total
		England	Atlantic	Central	Central	Central	Central	Atlantic	Central	Central	
Dollars	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
0 - 999.....	100.0	---	93.0	73.5	70.5	95.3	66.0	85.0	83.3		
1,000 - 1,999.....	---	---	4.0	7.2	8.6	.8	7.8	5.7	5.1		
2,000 - 2,999.....	---	---	.7	1.3	---	---	7.8	1.0	1.5		
3,000 - 3,999.....	---	---	.7	4.3	2.2	2.3	3.3	1.6	2.1		
4,000 - 4,999.....	---	---	.4	4.3	3.6	---	2.0	.5	1.6		
5,000 - 5,999.....	---	---	.4	1.3	1.4	---	1.3	---	.6		
6,000 - 6,999.....	---	---	.4	---	1.4	---	.6	1.0	.5		
7,000 - 7,999.....	---	---	.4	1.7	2.2	.8	---	---	.7		
8,000 - 8,999.....	---	---	---	---	.7	.8	.6	---	.2		
9,000 - 9,999.....	---	---	---	---	2.2	---	.6	.5	.4		
10,000 - 19,999.....	---	---	---	3.8	4.4	---	7.9	4.7	2.9		
20,000 - 39,999.....	---	---	---	2.2	1.4	---	1.4	---	.7		
40,000 - 85,999.....	---	---	---	.4	1.4	---	.7	---	.4		
Total.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	

Table 8.--Estimated total costs paid by fluid milk plants for sanitary regulation, 1967 1/

Fees and other costs	New		Mid-Atlantic		East North:Central		West North:Central		South:Atlantic		South:Central		Western		Total	
	England		Atlantic		Central		Central		Atlantic		Central		Western		Total	
	Dollars		Dollars		Dollars		Dollars		Dollars		Dollars		Dollars		Dollars	
Plant fees paid to:																
Primary authorities.....	3,688		115,734		983,705		724,030		31,228		692,119		365,049		2,915,553	
Other authorities.....	4,773		103,685		90,452		128,565		16,907		98,144		24,370		466,896	
Subtotal.....	8,461		219,419		1,074,157		852,595		48,135		790,263		389,419		3,382,449	
Estimated additional cost for:																
plant inspections: 2/																
Primary authorities.....	16,333		108,126		82,751		22,871		20,965		44,686		47,716		343,448	
Other authorities.....	10,661		68,592		18,230		9,012		20,485		19,146		23,614		169,740	
Subtotal.....	26,994		176,718		100,981		31,883		41,450		63,832		71,330		513,188	
Total cost for plant fees and:																
additional for inspections:																
Primary authorities.....	20,021		223,860		1,066,456		746,901		52,193		736,805		412,765		3,259,001	
Other authorities.....	15,434		172,277		108,682		137,577		37,392		117,290		47,984		636,636	
Subtotal.....	35,455		396,137		1,175,138		884,478		89,585		854,095		460,749		3,895,637	
Sanitation fees paid on milk:																
obtained from other plants...	---		23,461		355		1,296		251		4,322		3,012		32,697	
Producer fees paid by plants:	472		211,828		76,427		28,873		955		365		209,431		528,351	
Total.....	35,927		631,426		1,251,920		914,647		90,791		858,782		673,192		4,456,685	

1/ Regional totals were estimated by multiplying costs for 1,249 plants in the survey by a factor proportional to their share of total sales of fluid grade milk to plants and dealers in each region.

2/ Includes estimated costs to plants for employee time spent in accompanying or assisting plant inspectors; transportation, meals, and lodging cost for inspectors; and other miscellaneous costs associated with plant inspections.

